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CORPORATE PARTICIPANTS

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Chief Operating Officer & Senior Vice President, Enerplus Corp.

MANAGEMENT DISCUSSION SECTION

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Okay, thanks. Thanks, everyone. We'll get started. My name is Paul Lee, Director of Energy Sales at Scotiabank. It's my pleasure, our next session, to introduce Wade Hutchings, Executive Vice President, Chief Operating Officer at Enerplus. Wade, thanks for joining us [ph] down in New Orleans (00:17).

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

Thank you, Paul.

QUESTION AND ANSWER SECTION

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

Let's get started, I think Enerplus has made some really well-timed acquisitions, certainly last year. Think about the Bruin acquisition, the Hess's acquisition of some of the Williston Basin assets, almost $800 million in total. Can you give us a sense how those assets are performing versus expectations?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

Sure. Yeah. The operational performance is on track. The synergies that we thought we would find in terms of adjacent operations have been realized. We're still working on additional synergies. And I think the last thing I would note is, we're really pleased with how we were able to safely onboard the assets and people during a pretty unique year. It ended up being one of our best safety years on record.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

That's great. As far as type curves go, is it, it's performing better than expected or is it in line with your expectations?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

In terms of new wells, we bought several pads that had already been drilled. Two of those came on last year and then we're drilling some wells on the new assets this year. So the two pads that came on last year, the one that was in the core of the play in Fort Berthold, right on type curve met our expectations. The one that was on a far edge of the viable acreage we got in Williams County, a little bit under our expectations, but it also had one more well in the development than we had assumed was viable.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

Great. Thanks. Thanks, Wade. One question that came up – has come up with Enerplus in the past is, inventory, generally expressed in how many years of drilling. Can you talk about perhaps what those acquisitions may have done for Enerplus as far as increase the inventory portfolio? And maybe can you frame that in the context now going forward? How does Enerplus think about its Bakken inventory in years drilling or in other ways?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

Yeah, happy to. So, the first transaction we did last year Bruin really, really well timed. We got that at about three times cash flow. It was neutral to our inventory. So essentially, [ph] kept as whole (02:41). The Hess deal was much more geared as an inventory deal. It had a little bit of PDP production, but we bought it for the upside inventory. So, it added at least two to three years of high-quality inventory to our runway. And we now sit at a inventory level where if we just narrow down the inventory to what we call the core of the play, we would say we have over a decade of high-quality drilling inventory in front of us and that's assuming a 3% to 5% liquid's growth rate over that period. Now, when you zoom out a little bit beyond what we call the core into an extended core area, that would add another two to three years of inventory beyond that.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

That's helpful. I think one thing it has come up in other presentations. I think sometimes the Bakken is labeled as more mature. And we think about growth expectations for the basin, not necessarily Enerplus. But, how do you think about generally the Bakken from an industry perspective? Is it a basin that can see growth expectations or is it more about Enerplus as a unique, has unique position, has been a consolidator and therefore is able to grow its assets, like how do you think about the bigger picture [indiscernible] (04:02)?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

Yeah. I think it's pretty easy to say that the Bakken has been a bit underappreciated or under focused on by investors and by maybe even the industry in general. But I do think it is one where each company has its own unique position. I mean, clearly, there's been a lot of development there and each company has a kind of unique amount of remaining quality inventory left. We actually think Enerplus is differentiated at the far end of the curve in terms of having the most high-quality inventory left relative to our size. We actually just announced yesterday that we're going to hold a Bakken Investor Day in several weeks [ph] and that'll be one of the things we'll (04:44) highlight in there is, how our inventory is differentiated. So, I think the growth profile in the future for each operator will vary based on what kind of inventory they have left. We're quite comfortable that we can grow 3% to 5% for a decade and probably beyond that. I think, the other key thing I would note about the Bakken is, for the last couple of years, there's been takeaway a noise or questions mostly centered around DAPL. Much of that has now been mitigated and you're even seen from a differential perspective, something that we haven't saw historically in the Bakken, where we're now trading essentially on part of WTI.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

So that's a good point, actually on that point on DAPL. Can you remind us how Enerplus shifts it's crude right now and then how much spare capacity exists on the current pipe...

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

Sure.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

...system?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

So effectively all of our crude goes down pipe and almost all of that's on DAPL. We have our own capacity reserve, about 10,000 barrels per day, but we sell to a range of purchasers, refiners, other midstream companies, and essentially they have capacity reserved on DAPL, and so essentially all our barrels today go down DAPL. Now, when you zoom out and look at the entire basin, there's actually quite a bit of spare capacity. We would estimate anywhere from 300,000 to 400,000 barrels a day of excess capacity on pipe. There's still a little bit that that leaves the basin on rail, so that's part of what you're seeing and that much improved differential perspective.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

What is the regulatory status right now at that pipeline?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

So it is operated continuously through all of these different legal and regulatory questions. The last thing that still remains out there is [ph] an EIS (06:41) to be finished. Right now, it's slated to be done at the end of this year. I would note that even amidst all of that uncertainty, last year, there was a 170,000 barrel a day expansion approved on DAPL and didn't get a lot of attention, but it got approved and it's now being utilized.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

Great. Back to M&A opportunities, you talked about the, very well-timed low cash flow multiples. You think about additional opportunities. Is it already consolidated or do you see like Enerplus being able to do more on in that respect?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

I still think that there is plenty of opportunity for more consolidation in the Williston Basin. And maybe if I just go back and give you a little kind of historical context of valuations last year, we ended up participating in over half of the buying and selling that happened in the basin last year, because in addition to the two deals we did in the first part of the year where we bought assets, we sold some assets in the basin near the end of the year. So, the Bruin deal is probably the best one to use as a cash flow [indiscernible] (07:52). We got that about three times cash flow, that was in a $50 to $60 WTI world. Fast forward to the end of the year when we sold some legacy Montana Bakken production and we sold the most southern portion of the acreage and production that we bought from Bruin. We [indiscernible] (08:14) and sold it. And we were in a call it $65 to $70 world then. But if you take it back to $50, $60 benchmark, we would have sold those assets for five times cash flow. And those assets had essentially very little upside. So you can see how the market moved from clearly a buyer's market early in the year to something that maybe we'll call more balanced at the end of the year.

Certainly, as we entered this year, we thought the market was still pretty balanced. Deals could be done. Obviously, the volatility we're seeing now makes that a lot harder. But, as that kind of evens out, we would anticipate they'll continue to be consolidation in the basin. We anticipate playing a role in that. We're certainly going to be active and around any opportunities to grow our company and/or grow our asset base there. It remains our strategic core asset. It's really the focus of today's company and the future of the company.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

Right. So, it's fair to say that sellers are looking for something closer to strip pricing and buyers are looking for something much, much lesser or further out in that curve, a well, curve?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

Yeah. And I think buyers and sellers to a degree have to look a little bit beyond today's price and looking at more mid-cycle price and kind of what kind of mid and back into the curve looks like. There's probably still naturally a little bit of gap between bid and ask. But – and the reality is, until we see a few more deals, we won't know if it's actually closed.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

Yeah. Yeah, that's fair. You mentioned selling assets. Enerplus has announced its Canadian assets up for sale. What are the key milestones for that process and can you give us any sense of how initial interest has been?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

Sure. Yeah. These are a set of legacy assets that Enerplus has had for many, many years. They actually represent the last remaining Canadian production acreage assets we have. Timeline is we'd expect to announce a deal or set of deals sometime in the summer. The assets are spread out across pretty broad area of Alberta and South East Saskatchewan. It may be that optimize proceeds that we sell to one or – two or three parties. In terms of interest, any companies that are looking for low decline, stable cash flow that still has a little bit of an investment set of opportunities are going to be [ph] interested in those (10:51).

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

And what's production there [indiscernible] (10:53)...?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

On a net basis, about 7,500 boe a day.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

That's oil.

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Almost all oil, yeah.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

Yeah. Okay. Maybe shifting to the 2022 budget this year, inflation is coming up in every conversation here. How do you think about inflation constraints? Even potentially, can you talk about, is there any appetite to add at a rig at these kind of levels of free cash flow? But maybe start with the inflation. Where are you seeing constraints, if any, in the budget for this year?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Sure. I would say, we began to be concerned and worried about inflation in 2022 about a year ago. And so, about a year ago, we began to look at, what key services and equipment do we need to secure to make sure we could execute our 2022 program. So we extended our main rig contract for another few years. We locked in services and pricing on our pressure pumping. We bought or we secured pricing for sand. We bought about two-thirds of our casing before we ended the year, so we really were quite proactive in trying to secure the ability to execute this year's plan.

When you roll it all together and you look at our total capital program, we estimate that 75% of our capital program is secured and has pricing agreements to it. So naturally, today we're quite pleased that we got that work done, because we had to go secure that work today or even if we had to do it at the first of this year, we would have ended up paying a fair bit more than we did. So, to put a little bit of numerical context around that, our total well cost last year averaged $5.7 million a well and that's on the backend of about a three-year continuous improvement program where we started at $8.6 million ended at $5.7 million. So that's just a context to give you. This year we're projecting those total well cost to be around $6 million. And so, you can see a bit of inflation baked in there. Key parts of that are essentially already agreed in those pricing terms that we locked in last year.

And so, today, I would say, we are seeing a little bit more upside pressure to those inflationary numbers than we even would have predicted four months ago. Some of the things that we thought would plateau and start to roll over as we approach second half of the year, haven't done that yet still would be a perfect example of that. So, we see a little bit of upward pressure to that, but we also are counting on some additional efficiencies to help drive that number back around $6 million. So we still think that's a reasonable estimate.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

Okay.

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

In terms of your last part of the question, would we increase activity this year. I mean, one of the things we've often done in our capital guidance has given ourselves a bit of flexibility around could we add another pad of on-streams near the end of the year. That's something that we will always contemplate. One of the factors that could play into that is if we are successful with our Canadian divestment, most of those proceeds will go to the balance sheet and to returns to shareholders. But you could expect that we might take a small part of those proceeds, divert them in the second half to the Bakken.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

Great. I'll come back to that, but I wanted to just revisit on the well cost side, I think you had cited $8 million per well down to less than $6 million.

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Yeah.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

Now, it's kind of maybe got up a little bit, but can you talk about, I mean, that's a huge step change.

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

It is.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

Some other operators are talking about efficiencies like that, but maybe can you speak to that, that level of decrease, because that is, just huge...

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Yeah.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

...in magnitude.

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

So, 34% over three years. It is primarily driven by what I would call technology application, which really is pointed at efficiencies that mostly drive speed. So, we've essentially taken two to three days off of each wells spud to spud. On the drilling side, a lot of that has been driven by data analytics and automation. So, we had about at the start of that timeframe, we brought a new super-spec rig into our fleet and we put some automation software on there, and it's really helped us shave off increments of time on lots of operations. On the completion side, we actually saw just a tremendous rate of change. We went from about five stages per day at the start of that to about 13 stages per day. So, I think massive improvement in efficiency and time is money, not only on the pressure pumping, but on all the other ancillary services. That also has been driven by technology, a lot of automation, a lot of streamlining of all of the flow lines, of wellheads. And we actually still think we've got more to come. We've got other ideas that we're applying, I'd say in both drilling and completions today using kind of very environmentally-friendly dual-fuel type engines, is helping us actually eliminate some of our diesel costs, replacing it with CNG. So you'll see us advance that. You'll also see us advance other technologies that will help us keep being on the leading edge of cost curve.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

Okay. So, you can think the reductions aren't done. The order of magnitude though could be less just in an inflationary environment going forward...

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

Certainly, certainly they're going to be less given inflation.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

Yeah.

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.

A

But as you look at all of these plays, even ones that are as mature as the Bakken, I've looked at that throughout my career and often wondered, well, are we at the plateau? Have we hit it? And broadly speaking, we just keep finding new ways to drive efficiencies.

Paul Lee
Director-Institutional Equity Sales, Scotiabank

Q

That's great. Maybe turning to the Marcellus, Marcellus assets and I think some people think of them, are they core? Are they non-core? Produces $160 million, $170 million a day. Do you see – well, I guess, one would be – do you see some of that growth? Do you see that changing? Do you see there – is the Marcellus planning to grow? Do you view it as core, non-core? How do you view that asset as a non-operative position? So, it's a very well-run business and it's a business with scale. So, it's all non-operated for us. But historically for us, our primary partner there had been Chief oil and gas. And we were well aligned with them on capital allocation, had grown rapidly for many years and then reached a plateau and was just spitting out free cash flow every year.

Big change happened this year where Chief announced the divestment of those assets. Chesapeake has now closed that deal. So now, our non-operated asset is even part of a bigger at-scale operation. So we get the advantages of cost efficiencies. We've actually had exposure to a fair amount of Chesapeake Wells in that area, at a much smaller working interest than our Chief exposure. If you follow that area, you would know that Chesapeake's been driving very prolific, well, performance. So broadly speaking, we're pleased with the change. All things considered, a really good replacement operator.

So, in terms of just an asset to own and invest further in and harvest free cash flow, it's a great asset. But it remains non-operated. And so for us, we have been fairly consistent in saying we still think of it as non-core, but we're not rushing to just offload it, because it's non-core. We would need to realize fair value and fair value for us really encompasses well beyond the PDP value, because we see at current paces of activity at least 10 years of additional inventory. And so, receiving what we would view as fair value for that would be a key criterion for us. I would just note, the transaction that just happened between Chesapeake and Chief, very relevant marker price, obviously it's the same assets. And so, we are pleased to see that there were some value in that deal allocated to the future inventory.

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Right.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

And I guess when you think about the free cash flow that that asset generates, I guess, well, start maybe with the budget, like how much of your budget is roughly to the Marcellus and do you have a projection how much free cash that specific asset will...

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Yeah.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

...generate this year?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

So it has been a constant call $30 million to $40 million of spend over the last few years and that's how we would generally see it going forward. If you look at our external release materials, you'll see a chart that shows free cash flow versus gas pricing, it's pretty strong. I think at $4, I think, it's roughly at $140 million a year, but I'd have to go double check that graph.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

Great. So, it's a lot of free cash flow...

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

It is.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

...coming into the company. Turning to the corporate side, do you have projections how much free cash flow, Enerplus can generate this year? And I think the company did have a debt target. It continues to move, as cash –

well, continues to come in very, very quickly, but like to get your perspectives on also the debt, things like base dividend, variable dividends. Where does the buyback fit? And I mean, it's a good problem to have, but how does the company think about its priorities for the rest of this year?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Yeah. I mean, the free cash flow profile that we're looking at this year and into the next few years is really, it is a significant game changer for us and frankly, for many in the industry, gives us a lot more optionality to have a strong balance sheet and return a lot of capital to shareholders, so something we're obviously very excited about. So, if you look at the actual numbers projections for this year at a $75 WTI projection, we would generate roughly $900 million of cash flow and about $500 million of free cash flow. If you take that up to $85 WTI, that moves to about $1 billion of cash flow and about $600 of free cash flow, a good marker for our assets is every $10 move in WTI is about $120 million of extra free cash flow.

So, in terms of priorities for that use of free cash flow, we want to continue to maintain a competitive base dividend. And we see opportunities to strengthen it. Last year, we increased it three times. I think it grew 37%. We'll always be very focused on having [ph] that be (22:47) fairly kind of bulletproof in the sense that that at almost any conditions we could keep paying it out. So that will always be our governor there. Today we actually see even better value in putting that free cash flow toward buybacks, which I'll talk about in a minute. But just know, we see that dividend is a really important part of our return to capital. So today, coming back to debt, we have said that, ideally we would be able to stay below one turn on a leverage ratio at a $50 WTI outlook. And so, we feel like that as a really strong conservative view on where the balance sheet shouldn't get above. Now, we went above it last year to support a couple of those deals, but we've been able to rapidly de-lever and are almost at that spot today.

Given today's environment, we would see continuing to prioritize paying down debt with the free cash flow we have. So, in an environment like today, given that as kind of our marker of where we wouldn't want to get above, we should be headed well below that over the next few months and years, assuming the environment continues like it is. We could even see that approaching to where we didn't have any debt. Beyond that, today we see a fairly compelling opportunity to return capital and value to shareholders in retiring shares. And so, we think that there's a good return proposition there. Internally, we do a lot of work on what the return model looks like for retiring shares, where is our intrinsic value, where are we trading. And so, we've had a very active share buyback program as of late. We're still operating under a NCIB that had targeted 10% of the float. We did a lot of that last year and we're in the middle of kind of the second half of that this year. We'll finish that by July. That was nominally around $300 million total for the whole program. Assuming that conditions continue to look similar today, we would anticipate renewing that NCIB again in August for another year and continuing to return capital to shareholders in that manner.

Paul Lee
Director-Institutional Equity Sales, Scotiabank
Q

That's great. Maybe with a couple of minutes left, is it too early to talk about 2023 and what does Enerplus said about, that's a three-year growth outlook or start thinking about spending more than 2022 or a year-over-year? How should we think about where growth fits in? I mean, you mentioned earlier, maybe shifting a little bit, but how do you, is there any comments you can make on next couple of years?

Wade D. Hutchings
Chief Operating Officer & Senior Vice President, Enerplus Corp.
A

Yeah. We now have again a five-year outlook out in the market and it calls for 3% to 5% liquids growth over that entire five-year window. Nominally it requires $400 million to $450 million of capital to do that. And maybe I'll just maybe interject we are now, if you followed us for a while we're now speaking exclusively in US dollars and in net volumes, and we made that shift at the start of the year. So in terms of that outlook, we actually think that kind of a growth profile is really ideal for both optimizing free cash flow, but also managing the business for the medium to long-term. It keeps our corporate declines at a manageable level, keeps our inventory runway at a really strong level. So, we might tweak around the edges of that, but that's our plan for next year is to have a program that drives that kind of liquids growth.

We're already doing work on ensuring that we can execute next year's program. We already have the rig and our frac provider locked in for next year. So we're being proactive just like we did last year for this year. And, I think the quality of the inventory we have gives us a lot of flexibility on where that growth comes from. You will see us expand out beyond the core Fort Berthold assets that we historically had. This year we're already – we'll be drilling and bringing online some additional wells in Dunn County, where we bought the acreage from Hess. So you'll see us expand out across this broader acreage footprint that we have.

Paul Lee

Director-Institutional Equity Sales, Scotiabank

That's excellent. I think we're running out of time here. So why don't we shift over to the breakout room and if people have further questions there, we can get to that. But thanks a lot, Wade. Appreciate it. [indiscernible] (27:40). Thank you.

Wade D. Hutchings

Chief Operating Officer & Senior Vice President, Enerplus Corp.

You're welcome. Thank you, everyone.